REPORT OF EXAMINATION
OF THE

MID-CENTURY INSURANCE COMPANY

AS OF
DECEMBER 31, 2006

Participating State
and Zone:

California

Filed June 23, 2008

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Los Angeles, California
June 23, 2008

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Morris Chavez
Secretary, **Zone IV-Western**
Superintendent of Insurance
New Mexico Insurance Division
Santa Fe, New Mexico

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary and Commissioner:

Pursuant to your instructions, an examination was made of the

MID-CENTURY INSURANCE COMPANY

(hereinafter also referred to as the Company or MID-CENTURY) at its home office located at 4680 Wilshire Boulevard, Los Angeles, California 90010.

SCOPE OF EXAMINATION

The previous examination of MID-CENTURY was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of MID-CENTURY’s practices and procedures, an examination of management records, tests and analyses of detailed transactions, and an evaluation of the assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

This examination was conducted concurrently with examinations of MID-CENTURY's California parents and affiliates, namely: Farmers Insurance Exchange, Truck Insurance Exchange, Fire Insurance Exchange, Exact Property and Casualty Company, Civic Property and Casualty Company, Neighborhood Spirit Property and Casualty Company, and Farmers Reinsurance Company.

In addition to those items specifically commented upon in this report, other phases of MID-CENTURY's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

SUBSEQUENT EVENTS

Bristol West Holdings, Inc.

On July 3, 2007, Farmers Group, Inc. (FGI), the attorney-in-fact for the three exchanges, completed the acquisition of Bristol West Holdings, Inc. (BWH), a Delaware corporation, including its two directly-owned insurance company subsidiaries; Security National Insurance Company, a Florida company, Bristol West Preferred Insurance Company, a Michigan company, and certain insurance services companies. Also included in the acquisition were BWH's directly owned insurance holding company; Coast National Holding Company, a California company, and its insurance company subsidiary Coast National Insurance Company (CNIC), a California company, which in turn owned Bristol West Insurance Company, an Ohio company, and Bristol West Casualty Insurance Company, an Ohio company.

BWH, via its insurance subsidiaries, had licenses in 38 states plus the District of Columbia, operated in 22 states and was a provider of liability and physical damage insurance, specializing in non-standard private passenger auto.

FGI paid $713.5 million plus the assumption of $100 million of debt obligations for BWH. Additional consideration for the transaction included the "commutation of certain existing affiliated reinsurance arrangements" between BWH's subsidiaries, and the execution of a 90% quota share cession agreement between CNIC and Farmers Insurance Exchange (FIE) to be effective January 1, 2007. The CNIC quota share agreement was approved by the California Department of Insurance (CDI) on June 29, 2007.

The above transactions resulted in changes in the ultimate control of BWH's subsidiary, CNIC. FIE and Zurich Financial Services (ZFS), a Swiss company and FGI's ultimate parent corporation, filed a joint Form A application pursuant to California Insurance Code (CIC) Section 1215.2. Additionally, Form D applications were filed pursuant to CIC Section 1215.5. On June 28, 2007, FIE received correspondence from the CDI that the transactions were "not disapproved".

Concurrent with the acquisition, FGI sold BWH's underlying insurance business to FIE, Truck Insurance Exchange (Truck), Fire Insurance Exchange (Fire) and MID-CENTURY for $420 million, which represented an equity value of $370 million plus $50 million of debt assumption. In addition, FIE, Truck, Fire, and MID-CENTURY incurred transaction fees of $13.8 million. FGI retained certain of BWH's employees, the operational systems, and the management servicing rights. The acquisition was recorded using the statutory purchase method of accounting. The following schedule depicts each exchange/company's share of the costs, fees and goodwill for the acquisition of the BWH insurance business:

	(in millions)		
Entity	Cost and Fees	Goodwill	Percentage
Farmers Insurance Exchange	$162.7	$38.2	37.50%
Truck Insurance Exchange	38.0	8.9	8.75%
Fire Insurance Exchange	16.3	3.8	3.75%
Mid-Century Insurance Company	216.8	51.0	50.00%
Totals	$433.8	$101.9	100.00%

On May 8, 2008, the intermediate-level holding structure was re-organized and FGI is now currently owned 87.9% by Zurich Insurance Company (ZIC), 10.375% by Zurich Group Holdings (ZGH), and 1.725% by three Partnerships (Zurich RegCaPS II, V, VI) having ZIC as the General Partner and ZGH as the Limited Partner. ZFS continues to be the ultimate controlling party.

MID-CENTURY HISTORY

MID-CENTURY was incorporated on December 3, 1949, for the purpose of transacting property and casualty insurance business. Business commenced on February 17, 1953.

On December 30, 2002, Truck Insurance Exchange (Truck) sold a 7.5% ownership interest in MID-CENTURY to Fire Insurance Exchange (Fire) for cash in the amount of $34,776,000. On December 31, 2004, Fire sold 5% of outstanding MID-CENTURY shares to Farmers Insurance Exchange (FIE) for $30,055,724 cash. The amounts transacted did not meet or exceed the requirements set by California Insurance Code (CIC) Section 1215.5(b)(1), therefore prior approvals by the California Department of Insurance were not required for the two sales. However, the sales were reported in MID-CENTURY's Insurance Holding Company System Annual Registration Statements (Form B) for 2002 and 2004.

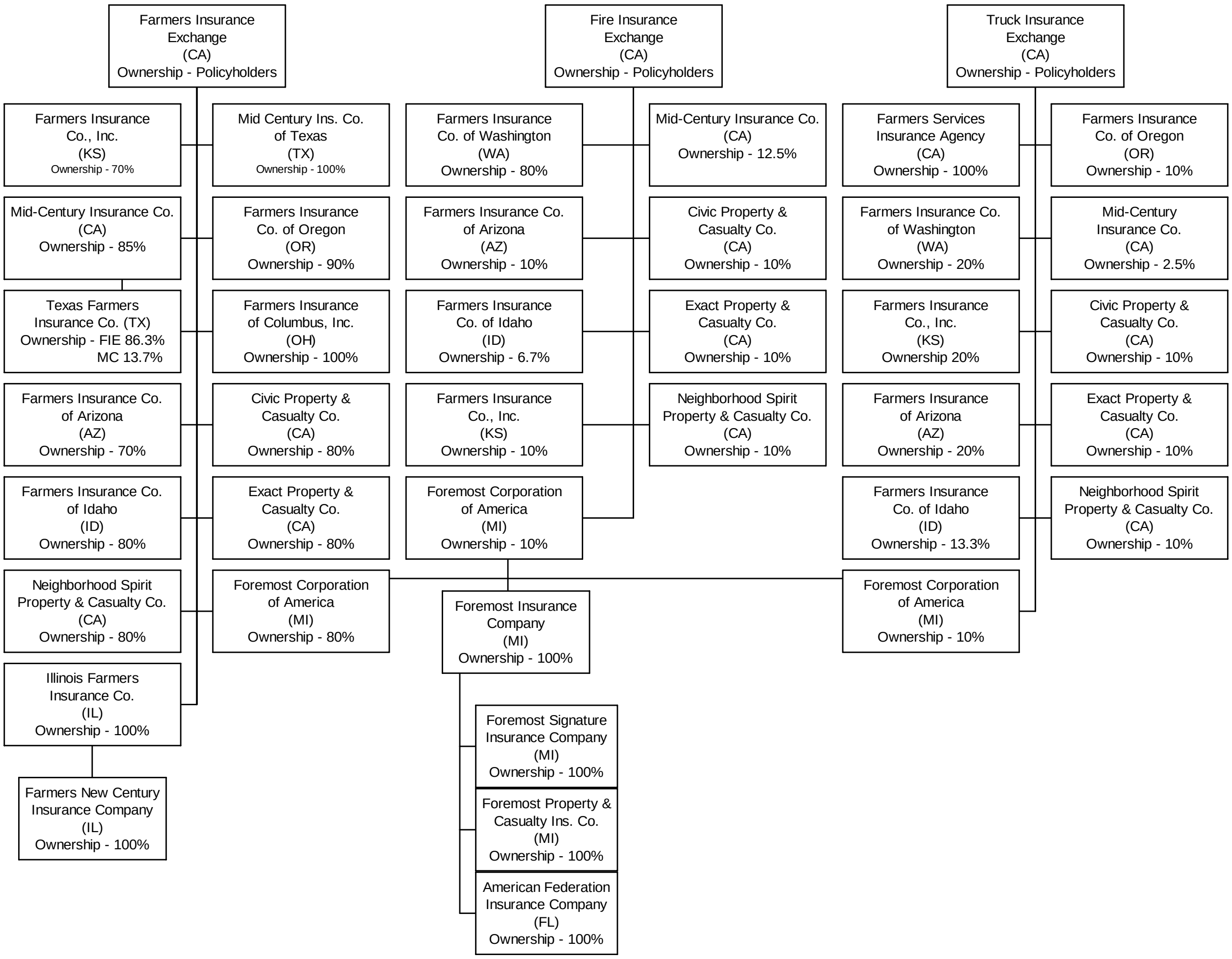
As of December 31, 2006, the outstanding shares of MID-CENTURY were owned by FIE (85%), Fire (12.5%), and Truck (2.5%).

MANAGEMENT AND CONTROL

The following abridged organizational charts depict MID-CENTURY's relationship within the holding company system, both as of December 31, 2006 and subsequent to the acquisition of Bristol West Holdings, Inc.:

FARMERS EXCHANGES

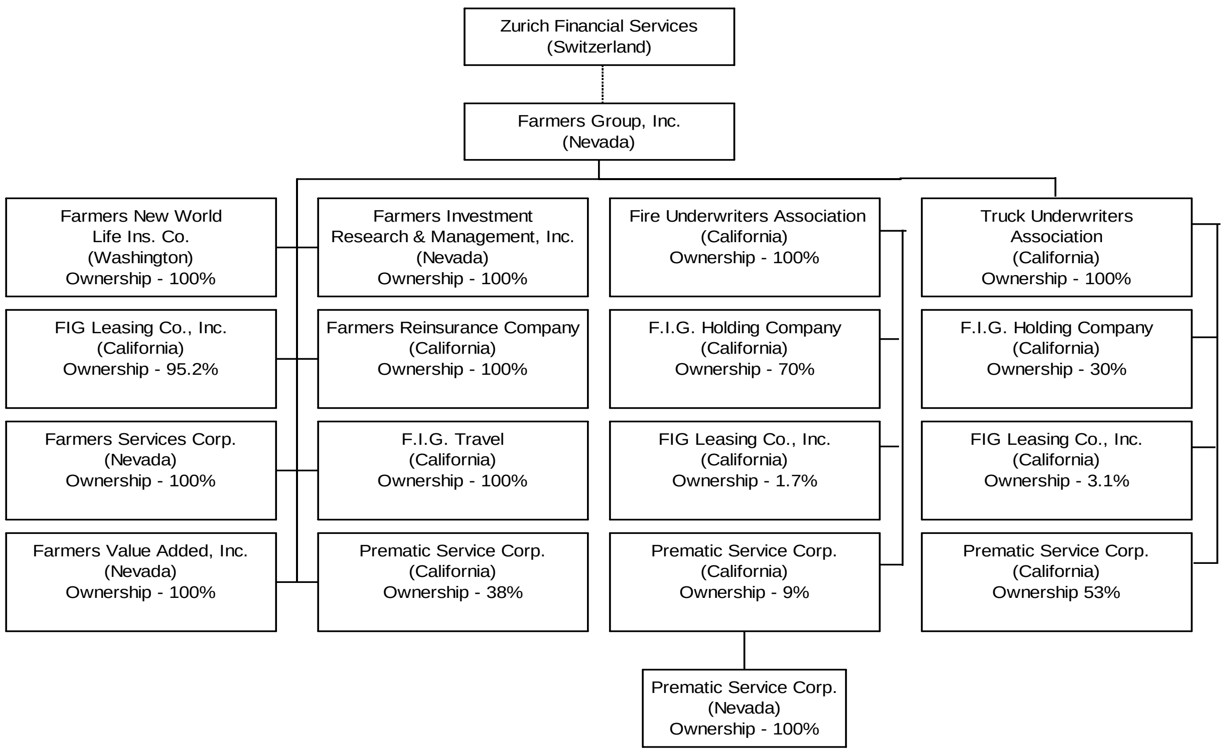
December 31, 2006



(*) all ownership is 100% unless otherwise noted.

ZURICH FINANCIAL SERVICES GROUP

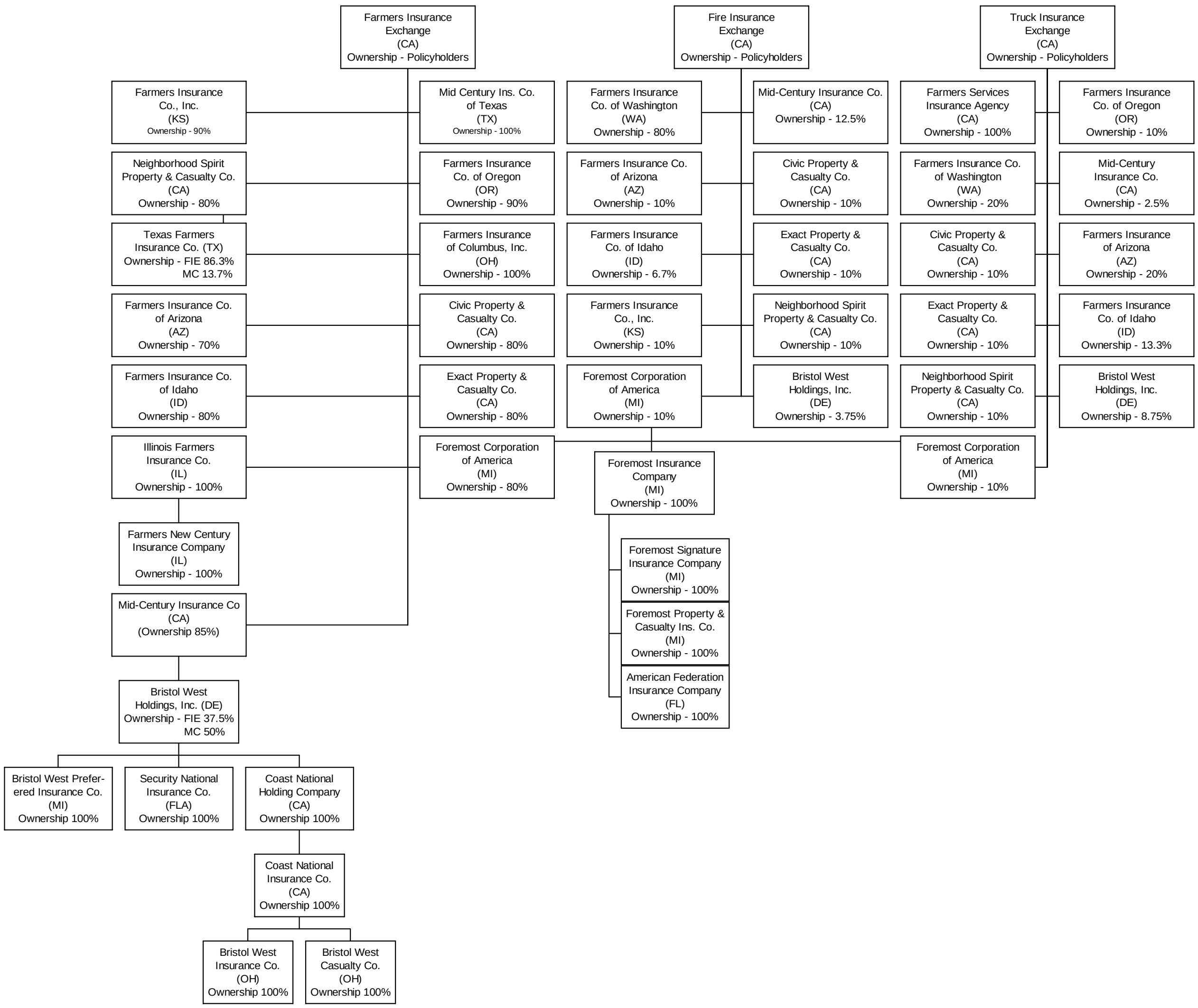
December 31, 2006



(*) all ownership is 100% unless otherwise noted.

FARMERS EXCHANGES

DECEMBER 31, 2007



(*) all ownership is 100% unless otherwise noted.

Management of MID-CENTURY was vested in a six (6) member board of directors, elected annually. A listing of the members of the board and principal officers serving on December 31, 2006 follows:

Directors

Name and Residence	Principal Business Affiliation
Paul Norman Hopkins Thousand Oaks, California	Chief Executive Officer and Member of Board of Directors Farmers Group, Inc.
Jason Lawrence Katz Los Angeles, California	Executive Vice President, General Counsel and Member of Board of Directors Farmers Group, Inc.
Kevin Eugene Kelso Los Angeles, California	Senior Vice President and Member of Board of Directors Farmers Group, Inc.
Keitha Tullos Schofield Los Angeles, California	Executive Vice President and Member of Board of Directors Farmers Group, Inc.
Pierre Christophe Wauthier * Agoura Hills, California	Executive Vice President, Chief Financial Officer and Treasurer Farmers Group, Inc.
Frank Robert Woudstra Los Angeles, California	Executive Vice President, and Member of Board of Directors Farmers Group, Inc.

* Resigned on October 1, 2007 and was not replaced on the board of directors.

Principal Officers

Name	Title
Frank Robert Woudstra	President
Pierre Christophe Wauthier *	Vice President and Treasurer
Doren Eugene Hohl	Secretary

Name		Title
Paul Norman Hopkins		Vice President
Jason Lawrence Katz		Vice President
Kevin Eugene Kelso		Vice President
Bryan Francis Murphy		Vice President
Ronald Gregory Myhan		Vice President
Mhayse Gokul Samalya		Vice President
Keitha Tullos Schofield	**	Vice President
Stanley Ray Smith	***	Vice President
Warren Benjamin Tucker	****	Vice President

* Resigned on October 1, 2007 and was replaced by Ronald Gregory Myhan as Vice President and Assistant Treasurer.
** Resigned on March 16, 2007 and was not replaced.
*** Resigned on July 1, 2007 and was replaced by Ronnie Coble.
**** Resigned on May 31, 2007 and was replaced by James Leslie Nutting.

Management Agreements

Farmers Group, Inc. (FGI), the Attorney-In-Fact for the three exchanges, provides all operating services (including staffing and occupancy) except claims adjustment services to MID-CENTURY. These services were provided to the three affiliated exchanges pursuant to the subscription agreements signed by each individual policyholder of the exchanges. There was no such subscription agreement form applicable between MID-CENTURY's policyholders and FGI.

There was no existing written management services agreement between MID-CENTURY and FGI, the service provider. MID-CENTURY's service personnel have indicated that, rather than utilizing separate written services agreements, the services and related fees are anticipated and covered under the broader "due to the reinsurer category" of the intercompany reinsurance pooling agreement. During 2004, 2005, and 2006, net management services fees paid by MID-CENTURY to FGI as a result of its participation in the intercompany reinsurance agreement were $248,414,977, $252,129,352, and $258,177,029, respectively.

Claims Adjustment Services Arrangement

The Farmers Insurance Exchange (FIE) staffs a claims department for the adjustment of its own claims and to adjust certain of its affiliated insurance companies' claims, including MID-CENTURY's. The claims adjustment services arrangement in place between FIE and certain of its affiliates (the pooled companies including MID-CENTURY), with FIE providing all of their claims adjustment services, was not written. During 2004, 2005, and 2006, net claims adjustment service fees paid by MID-CENTURY to FIE as a result of its participation in the intercompany reinsurance agreement were $142,468,000, $139,365,000, and $144,236,000, respectively.

Managed Care Services Agreement

MID-CENTURY is a party to a managed care services agreement effective October 1, 1998, with Zurich Services Corporation (ZSC), an affiliate. ZSC provides certain bill review and medical management services for MID-CENTURY's workers' compensation claims. It is recommended that the MID-CENTURY submit the managed care services agreement to the California Department of Insurance (CDI) pursuant to CIC Section 1215.5 for approval.

Tax Sharing Agreement

MID-CENTURY's federal income tax return was consolidated with various insurance and non-insurance affiliates. There was a long-standing written tax sharing agreement in place. The agreement was amended on July 25, 2000 to add Foremost Corporation of America (Foremost) and certain of its subsidiaries, and subsequently amended, effective July 3, 2007, to add Bristol West Holdings, Inc. and all of its subsidiaries, plus two more companies owned by Foremost. The tax allocation was based on separate return calculations with current credit for net losses. On January 3, 2008 the CDI approved this latest amended agreement. MID-CENTURY's portion of the federal income taxes paid/(recovered) for 2004, 2005 and 2006, were ($32,039,064), ($40,039,720), and $34,877,000, respectively.

Investment Management Agreements

FGI, acting on behalf of FIE, Fire Insurance Exchange (Fire), Truck Insurance Exchange (Truck), and the subsidiaries of these three exchanges, including MID-CENTURY, entered into an Investment Management Agreement dated July 1, 1998 with its affiliate, Scudder Kemper Investments Inc. (Scudder). In 2002, Scudder was acquired and replaced by Deutsche Asset Management (DeAM), a division of Deutsche Bank, AG. DeAM, a non-affiliate, managed FIE, Fire, Truck and their subsidiaries', including MID-CENTURY's, fixed income and equity asset portfolios. The terms of the Investment Management Agreement have otherwise not been altered.

FGI was also a party to the Service Level Agreement dated November 4, 1998 with Scudder, which was replaced in 2002 by DeAM. DeAM, a non-affiliate, provided accounting and reporting services in connection with FIE, Fire, Truck, and the stock subsidiaries', including MID-CENTURY's, investment portfolios, including Securities Valuation Office reporting. DeAM was given the authority to vote the proxies of the common stock. The terms of the Service Level Agreement were left unchanged except for the replacement of parties.

Securities Lending Agreement

In 1999 the exchanges and subsidiaries, including MID-CENTURY, filed with the CDI a proposed securities lending agreement with its affiliate, Zurich Capital Markets Trust Company (Zurich).

In December 2001, the securities lending agent was changed from Zurich to the Bank of New York Western Trust (BNY), a non-affiliate, as Zurich had decided to exit the securities lending business. "Collateral" as defined in the securities lending agreement between BNY and the companies indicated government securities and cash. The agreement also stipulated that BNY establish a "custodial custody account" in the name of the companies for the purpose of holding collateral and approved investments pertaining to securities lending transactions. The custodian was Wall Street

Portfolio Advisors, a division of BNY. The current agreement conformed to the securities lending limits specified in CDI Bulletin 82-2.

TERRITORY AND PLAN OF OPERATION

MID-CENTURY is licensed in the following 43 states:

Alabama	Indiana	Nebraska	South Carolina
Arizona	Iowa	Nevada	South Dakota
Arkansas	Kansas	New Hampshire	Tennessee
California	Kentucky	New Jersey	Texas
Colorado	Louisiana	New Mexico	Utah
Delaware	Maryland	North Carolina	Vermont
Florida	Michigan	North Dakota	Virginia
Georgia	Minnesota	Ohio	Washington
Hawaii	Mississippi	Oklahoma	Wisconsin
Idaho	Missouri	Oregon	Wyoming
Illinois	Montana	Pennsylvania	

MID-CENTURY writes most of the property and casualty lines of business with a heavy emphasis on personal lines. The principal personal lines written or assumed by Farmers Insurance Exchange (the lead pooling entity in the reinsurance pooling arrangement) were private passenger auto liability, auto physical damage, and homeowners multiple peril. By volume, commercial multiple peril and, to a lesser extent, workers' compensation writings were the more material of the commercial lines being written.

In 2006, MID-CENTURY wrote $1.6 billion of direct premiums. Approximately one-third of MID-CENTURY's direct business was written in California, with the remaining two-thirds broadly distributed in various states.

Personal and commercial business is produced for the Farmers property and casualty companies (including MID-CENTURY) by an exclusive agency force of more than 18,000 agents and was supported by 30 state executive offices, 12 personal and commercial service centers, and 150 branch claim offices.

The Farmers property and casualty companies announced, during the fall of 2003, that they were fully withdrawing from the writing of the Medical Malpractice line of business. Policies then-existing were runoff.

REINSURANCE

Intercompany Reinsurance Pooling Agreement

MID-CENTURY participated in an intercompany reinsurance pooling agreement. Under this agreement, the affiliated participants ceded all of their business, net of all reinsurance, to the lead company, Farmers Insurance Exchange (FIE). FIE then retroceded a share of the business back to certain participants, including MID-CENTURY, based on percentages prescribed under the pooling agreement. The most recent amendment to this long-standing agreement was approved by the California Department of Insurance (CDI) on January 12, 1999. The participants in the intercompany reinsurance pooling agreement, and their respective participation percentages as of December 31, 2006, were as follows:

Pool Participant	Percentage
Farmers Insurance Exchange	51.75
Truck Insurance Exchange	7.75
Fire Insurance Exchange	7.50
Farmers Insurance Company of Oregon	7.00
Farmers Insurance Company of Washington	2.00
Mid-Century Insurance Company	16.00
Texas Farmers Insurance Company	1.00
Farmers Insurance Company, Inc.	0.75
Illinois Farmers Insurance Company	0.75
Farmers New Century Insurance Company	0.75
Farmers Insurance Company of Idaho	0.75
Farmers Insurance of Columbus, Inc.	1.00

Civic Property and Casualty Company	1.00
Exact Property and Casualty Company	1.00
Neighborhood Spirit Property and Casualty Company	1.00
Total	100.00

Ceded

Affiliated

Treaties ceding quota share risks to affiliated reinsurers were written with FIE and all of its affiliates and subsidiaries (including MID-CENTURY) as the cedents and remained in effect at December 31, 2006. Included was an auto physical damage (APD) 100% quota share agreement with several participants including the affiliated Zurich Insurance Company (Zurich) with an initial 65% participation, and the affiliated Farmers Reinsurance Company (Farmers Re) with a 10% participation. Several non-affiliated reinsurers assumed the remaining 25% in participation. The premium for this APD agreement since 2001 was $2 billion annually. The APD agreement was approved by the CDI in 2001 for one year, with one-year extensions granted in 2002 and 2003. In 2004, the APD agreement was revised to reduce the quota share percentage to 50%, with Zurich assuming a 40% participation and Farmers Re assuming the remaining 10% participation. Effective January 1, 2006 the above amended APD agreement was replaced by a new APD 100% quota share agreement. The premium for this replacement APD agreement was $1 billion annually with Zurich assuming an 80% participation and Farmers Re assuming a 20% participation. The CDI approved this agreement on December 28, 2005.

On December 31, 2002, MID-CENTURY along with its property and casualty affiliates (including FIE), entered into a 10% “all-lines” quota share reinsurance agreement ceding business to Zurich and Farmers Re. This agreement covered all lines directly written, assumed from affiliates, or assumed from pools, associations, or syndicates. This agreement was then amended, effective December 31, 2004, to increase the percentage to 12% and amended again effective December 31, 2005, to decrease the percentage down to 6% (Zurich 4.8% participation and Farmers

Re 1.2% participation) which was the current cession at the examination date. The CDI approved this 2005 amendment on December 28, 2005. Subsequently, the agreement was amended, effective December 31, 2007, to decrease the percentage to 5% (Zurich 4% participation and Farmers Re 1% participation) and extend the duration to December 31, 2010. This latest amendment was approved by the CDI on December 28, 2007.

<u>Non-affiliated</u>

Treaties ceding risks to non-affiliated reinsurers were written with MID-CENTURY and all of its affiliates and subsidiaries as the cedents. The following is a summary of the principal non-affiliated ceded excess of loss reinsurance treaties inforce as of December 31, 2006:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Property Catastrophe Excess of Loss – 1st Layer	Lloyds of London (26.62%) Various reinsurers (63.38%)	$200 million per occurrence	90% of $450 million excess of $200 million retention each and every loss occurrence. Terrorism excluded
Property Catastrophe Excess of Loss – 2nd Layer	Various reinsurers (90%)	$650 million per occurrence	90% of $300 million excess of $650 million retention each and every loss occurrence. Terrorism excluded. For Texas only, this layer is in excess of the $500 million excess of $650 million layer immediately below.
Property Catastrophe Excess of Loss – Texas	Lloyds of London (22.93%) Various reinsurers (76.07%)	$650 million per occurrence	99% of $500 million excess of $650 million, Texas only. Terrorism excluded (Property CAT Excess of Loss treaty above covers resulting loss corridor – resulting in Company net retention of $200 million.).
Multi-Event Property Catastrophe Excess of Loss	Lloyds of London (32.74%) Various reinsurers (57.26%)	$20 million per event plus a $360 million aggregate deductible	90% of $180 million excess of $20 million. Excludes California earthquake, Florida hurricane, mold, and terrorism.
Property Per Risk Excess of Loss – 1st Layer	Lloyds of London (48.28%)	$3 million each and every loss, any one risk	100% of $7 million excess of $3 million each and every loss, any

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
	Various reinsurers (51.72%)		one risk
Property Per Risk Excess of Loss – 2nd Layer	Lloyds of London (46.88%) Various reinsurers (53.12%)	$10 million each and every loss, any one risk	100% of $40 million excess of $10 million each and every loss, any one risk
Casualty/Workers' Comp. Excess of Loss – 1st Layer	Lloyds of London (37%) Endurance Specialty Ins. Ltd. (25%) Aspen Insurance UK Limited (25%) Various reinsurers (13%)	$10 million each occurrence	100% of $15 million excess of $10 million each occurrence.
Casualty/Workers' Comp. Excess of Loss – 2nd Layer	Lloyds of London (47%) Endurance Specialty Ins. Ltd. (25%) Aspen Insurance UK Limited (17%) Various reinsurers (11%)	$25 million each occurrence	100% of $25 million excess of $25 million each occurrence.
Casualty/Workers' Comp. Excess of Loss – 3rd Layer	Lloyds of London (18.5%) Endurance Specialty Ins. Ltd. (25%) Aspen Insurance UK Limited (20%) Various reinsurers (6.5%)	$50 million each occurrence, plus 30% of $50 million excess	70% of $50 million excess of $50 million each occurrence. For Workers' Comp. portion only an additional 30% is covered under the following CAT XOL treaty.
Workers' Compensation Catastrophic Excess of Loss	AXA RE (20%) Flagstone Reinsurance Limited (10%)	$50 million each occurrence	30% of $50 million excess of $50 million each occurrence

Mid-Century also fronted for FIE in situations where a stock insurer was required.

As of December 31, 2006, reinsurance recoverables for all ceded reinsurance totaled $1.9 billion or 310% of surplus as regards policyholders. Of the Company's reinsurance recoverables 98.8% were from admitted affiliates resulting from the pooling arrangement.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the Year Ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

Statement of Financial Condition
as of December 31, 2006

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Note
Bonds	$2,177,690,753	$	$2,177,690,753	
Stocks:				
Preferred stocks	2,430,107		2,430,107	
Common stocks	213,763,041		213,763,041	
Real estate: Properties held for production of income	56,359,995		56,359,995	
Cash and short-term investments	31,919,501		31,919,501	
Aggregate write-ins for invested assets	25,856,436		25,856,436	
Investment income due and accrued	24,666,470	6,600	24,659,870	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	100,436,892	16,023,968	84,412,924	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	399,377,155		399,377,155	
Accrued retrospective premiums	1,178,067		1,178,067	
Amounts recoverable from reinsurers	86,930,901		86,930,901	
Current federal and foreign income tax recoverable	225		225	
Net deferred tax asset	82,487,859		82,487,859	
Guaranty funds receivable or on deposit	3,077,915		3,077,915	
Aggregate write-ins for other than invested assets	7,938,820		7,938,820	
Total assets	$3,214,114,137	$ 16,030,568	$3,198,083,569	

Liabilities, Surplus and Other Funds		
Losses	$1,153,647,397	(1)
Reinsurance payable on paid losses and loss adjustment expenses	103,970,961	
Loss adjustment expenses	346,625,481	(1)
Commissions payable, contingent commissions and other similar charges	2,320,662	
Taxes, licenses and fees	13,428,230	
Unearned premiums	740,418,471	
Advance premium	17,782,634	
Dividends declared and unpaid: Policyholders	480,000	
Ceded reinsurance premiums payable	117,524,803	
Amounts withheld or retained by company for account of others	1,429,473	
Remittances and items not allocated	86,781	
Provision for reinsurance	1,640,676	
Drafts outstanding	1,499,158	
Payable to parent, subsidiaries and affiliates	4,011,127	
Aggregate write-ins for liabilities	82,620,115	

Total liabilities		2,587,485,969
Common capital stock	$ 4,800,000	
Gross paid-in and contributed surplus	1,639,750,000	
Unassigned funds (surplus)	(1,033,952,400)	
Surplus as regards policyholders		610,597,600
Total liabilities, surplus and other funds		$3,198,083,569

Underwriting and Investment Exhibit
for the Year Ended December 31, 2006

Statement of Income

Underwriting Income		
Premiums earned		$ 1,822,555,721
Deductions:		
Losses incurred	$ 1,041,878,933	
Loss expenses incurred	235,107,072	
Other underwriting expenses incurred	527,692,845	
Aggregate write-ins for underwriting deductions	4	
Total underwriting deductions		1,804,678,854
Net underwriting gain		17,876,867
Investment Income		
Net investment income earned	$108,253,074	
Net realized capital gains	2,434,547	
Net investment gain		110,687,621
Other Income		
Net loss from agents' or premium balances charged off	$ (11,295,964)	
Finance and service charges not included in premiums	4,133,819	
Aggregate write-ins for miscellaneous loss	(5,852,928)	
Total other loss		(13,015,073)
Net income before dividends to policyholders after capital gains tax and before all other federal and foreign income taxes		115,549,415
Dividends to policyholders		832,536
Federal and foreign income taxes incurred		32,975,756
Net income		$ 81,741,123

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		$ 483,006,557
Net income	$ 81,741,123	
Change in net unrealized capital gains	12,017,255	
Change in net deferred income tax	8,992,219	
Change in nonadmitted assets	27,466,113	
Change in provision for reinsurance	(1,443,013)	
Aggregate write-ins for losses in surplus	(1,182,654)	
Change in surplus as regards policyholders		127,591,043
Surplus as regards policyholders, December 31, 2006		$ 610,597,600

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2003, per Examination			$ 317,692,143
Net income	$ 227,328,151	$	
Change in net unrealized capital gains	24,957,378		
Change in net deferred income tax	18,989,365		
Change in nonadmitted assets	29,359,784		
Change in provision for reinsurance	963,084		
Aggregate write-ins for losses in surplus		8,692,305	
Totals	$ 301,597,762	$ 8,692,305	
Net change in surplus as regards policyholders for the examination			292,905,457
Surplus as regards policyholders, December 31, 2006, per Examination			$ 610,597,600

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

MID-CENTURY was directed by the California Department of Insurance (CDI), under California Insurance Code Section 733(g), to retain the American Actuarial Consulting Group, LLC, (AACG) for the purpose of assisting this examination in determining the reasonableness of MID-CENTURY's loss and loss adjustment expense reserves. Because the business of the Farmers property and casualty companies was pooled it was necessary to review the losses on a group-wide basis. Based on the analysis by AACG and the review of their work by a Casualty Actuary from the CDI, MID-CENTURY's December 31, 2006 reserves for losses and loss adjustment expenses were determined to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control: - Managed Care Services Agreement (Page 10): Zurich Services Corporation, an affiliate, provided certain bill review and medical management services for MID-CENTURY's workers' compensation claims. It is recommended that MID-CENTURY submit the managed care services agreement to the California Department of Insurance (CDI) for approval pursuant to CIC Section 1215.5.

Previous Report of Examination

Contingent Liabilities (Page 3): Based on discussions with MID-CENTURY's attorneys (and the limited review of public domain documents obtained) the examiners were able to obtain an understanding of the volume and range of "class action either claims-related or non-claims-related" lawsuits that the Farmers property and casualty group appeared to be exposed to. However, due to the constraints evident in having access only to “public domain” documents and/or attorney discussion, a sufficiently complete examiner understanding of MID-CENTURY’s contingent liability exposure was not practical or accomplished. The current examination’s review of legal data/documents was limited to “public-domain” only, similar to that of the previous examination.

Management and Control - Management Services Agreement (Page 10): Management services were provided directly to MID-CENTURY by Farmers Group, Inc (FGI) with the fees based on percentages of premiums. It was recommended that MID-CENTURY and FGI enter into a written management services agreement and submit it to the CDI pursuant to CIC Section 1215.5. MID-CENTURY is in the process of developing the agreement to be submitted to the CDI.

Federal and Foreign Income Tax Recoverable (Page 24**):** The examination increased the amount of federal income tax recoverable by $130,244,825. This was the result of accruing for the tax effect of the higher level of net loss and loss adjustment expense reserves, and the accrual of the Bell and MDL cases, as recorded in the prior examination report. This tax effect amount appeared to qualify for treatment as a Net Operating Loss (NOL) carry back. The amount reported by MID-CENTURY for Federal and Foreign Income Tax Recoverable/Payable was accepted as reasonable for this examination.

Losses and Loss Adjustment Expenses (Page 24): Based upon an independent actuarial review, MID-CENTURY’s net loss and loss adjustment expense reserves as of December 31, 2003 were determined to be $386,915,000 deficient and were adjusted for purposes of the examination. Current carried net loss and loss adjustment expense reserves appeared adequate.

Aggregate Write-Ins for Liabilities (Page 25): The amount of “aggregate write-ins for liabilities” per the prior examination was $31,488,105 greater than the MID-CENTURY stated amount. The current balance carried in the aggregate write-ins for liabilities was accepted as reasonable.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the MID-CENTURY's officers and its parents' employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

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Gary W. McMurray, CFE
Examiner-In-Charge
Contract Insurance Examiner
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